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CROWS NEST
INDUSTRIES LIMITED
SEVENTY-THIRD
ANNUAL REPORT 1969



**CROWS NEST INDUSTRIES LIMITED
SEVENTY-THIRD ANNUAL REPORT 1969**

FOR THE YEAR ENDED DECEMBER 31, 1969
(Formerly The Crow's Nest Pass Coal Company, Limited)
Including Wholly-Owned Subsidiary Companies
Established 1897



BOARD OF DIRECTORS:

THOMAS F. GLEED, *Seattle*
WILLIAM R. PRENTICE, *Fernie*
NEIL B. IVORY, *Montreal*
HENRY C. JUDD, *Menlo Park*
JOHN W. PITTS, *Vancouver*
GEORGE V. POWELL, *Seattle*
F. DREWE PRATT, *Vancouver*
D. E. SKINNER, *Seattle*

OFFICERS:

THOMAS F. GLEED, *Chairman*
WILLIAM R. PRENTICE, *President*
M. BRUCE PEPPER, *Vice-President,*
Administration and Finance
C. GARSIDE, *Vice-President, Forest Products*

AUDITORS:

CLARKSON, GORDON & CO., *Calgary*

TRANSFER AGENTS:

CANADA PERMANENT TRUST COMPANY, *Toronto*
BANKERS TRUST COMPANY, *New York*

REGISTRARS:

NATIONAL TRUST COMPANY, LIMITED, *Toronto*
MANUFACTURERS HANOVER TRUST COMPANY, *New York*

CROW'S NEST PASS ELECTRIC LIGHT & POWER
COMPANY LIMITED

MORRISSEY, FERNIE & MICHEL RAILWAY COMPANY

THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED

FERNIE EQUIPMENT COMPANY LIMITED

TRANSPAC CORPORATION

KNIGHT LUMBER COMPANY LIMITED

E. C. LETCHER LUMBER COMPANY LIMITED

EAST KOOTENAY LUMBER COMPANY LIMITED

GOLD CREEK TIMBER COMPANY LIMITED

ST. MARYS LUMBER CO. LTD.

CROWS NEST FOREST PRODUCTS COMPANY LIMITED

CROWS NEST PLYWOODS LIMITED

KOOTENAY AND ELK RAILWAY COMPANY

HEAD OFFICE: FERNIE, BRITISH COLUMBIA



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Seven year summary of comparative highlights

	1969	1968	1967	1966
Sale of all products.....	\$11,189,493	\$12,001,891	\$15,965,891	\$14,070,916
Net profit (loss) and special credits.....	\$ (1,515,467)	\$ 479,449	\$ 380,964	\$ 554,512
Profit (loss) per common share*				
From operations.....	\$(2.07)	66¢	52¢	65¢
Special credits.....	—	—	—	12¢
Total.....	\$(2.07)	66¢	52¢	77¢
Common shareholders' equity*.....	\$15,078,648	\$17,142,497	\$10,102,823	\$10,235,615
Equity per common share*.....	\$20.62	\$23.45	\$13.91	\$14.12
Dividends declared.....	\$ 548,382	\$ 548,025	\$ 544,256	\$ 540,619
Dividends per common share.....	75¢	75¢	75¢	75¢
Depreciation and depletion.....	\$ 862,738	\$ 637,450	\$ 1,134,975	\$ 1,318,585
Capital expenditures.....	\$ 5,425,070	\$ 2,394,660	\$ 1,089,638	\$ 1,803,848
Working capital.....	\$ (8,572,938)	\$ (766,024)	\$ 472,797	\$ 888,041
Production – coal (tons).....	—	142,919	946,224	837,460
Production – coke (tons).....	—	22,380	144,147	154,999
Production – breeze (tons).....	—	2,318	15,016	16,544
Production – Lumber (fbm).....	53,823,668	39,489,957	47,831,535	68,813,323
Production – oil (bbls).....	337,463	205,728	191,174	170,008
Number of employees at year end.....	428	344	818	830
Common shares at year end*				
Number outstanding.....	731,175	731,175	726,550	724,675
Percentage held by Canadians.....	40%	26%	26%	30%
Other.....	60%	74%	74%	70%
Number of shareholders at year end				
Canadian.....	255	252	305	364
Other.....	228	261	253	275

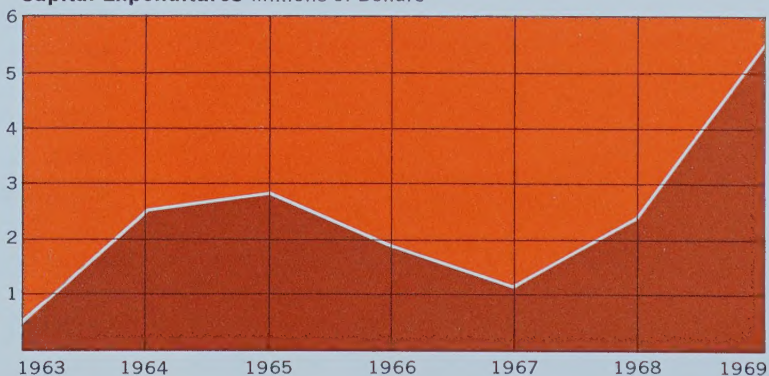
*Excluding shares held by subsidiaries.

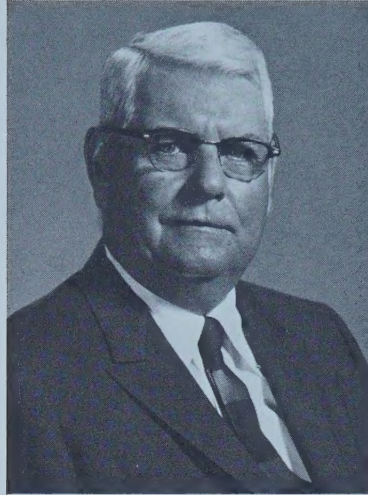
1965	1964	1963
\$13,072,834	\$ 8,868,843	\$ 8,580,081
\$ 1,085,898	\$ 1,061,762	\$ 720,389
68¢	69¢	\$1.01
83¢	79¢	—
\$1.51	\$1.48	\$1.01
\$10,146,722	\$ 9,569,615	\$ 9,044,193
\$14.12	\$13.38	\$12.65
\$ 551,756	\$ 536,340	\$ 549,503
75¢	75¢	75¢
\$ 1,184,957	\$ 795,570	\$ 773,931
\$ 2,848,548	\$ 2,518,488	\$ 510,036
\$ 1,246,482	\$ 2,192,182	\$ 2,109,941
767,035	834,234	756,284
142,468	131,689	134,370
15,028	12,518	11,395
68,375,793	24,275,253	17,435,569
182,933	224,063	230,492
935	823	754
718,425	715,120	715,120
24%	18%	13%
76%	82%	87%
311	247	201
314	355	403

Rail spur was built to serve new mill.



Capital Expenditures Millions of Dollars





T. F. GLEED,
Chairman

Chairman's Statement to Shareholders

Crows Nest Industries, now in its 74th year of operation, continues to program toward utilization of its resources for the benefit of its shareholders, its employees, its region, and Canada.

Toward this end, 1969 was a year of transition for us.

✓ Three separate sawmill operations were consolidated into a new integrated mill complex at Elko, B.C., completed during the summer of 1969 at a cost of approximately \$5.3 million. Start-up and phasing-in problems coincided with a sharp deterioration in the lumber market to produce a loss on mill operations.]

The short-term outlook is for continually-improved production from our Elko mill in 1970, but a continued soft market in lumber could sharply limit earnings from the forest products division.

The Company's net loss for the year was \$1,515,467 compared with the net profit of \$479,449 in 1968. [Prior to phasing-in of the new mill, the company had developed earnings of \$188,374 for the first half of 1969.]

Crows Nest Industries continued to receive income from its 1968 sale of coal reserves to Kaiser Resources Ltd. – a resource previously kept from the marketplace by financial, technical, and transportation limitations.

In 1969, cash payments from Kaiser, and dividends from our holdings of 351,351 shares,

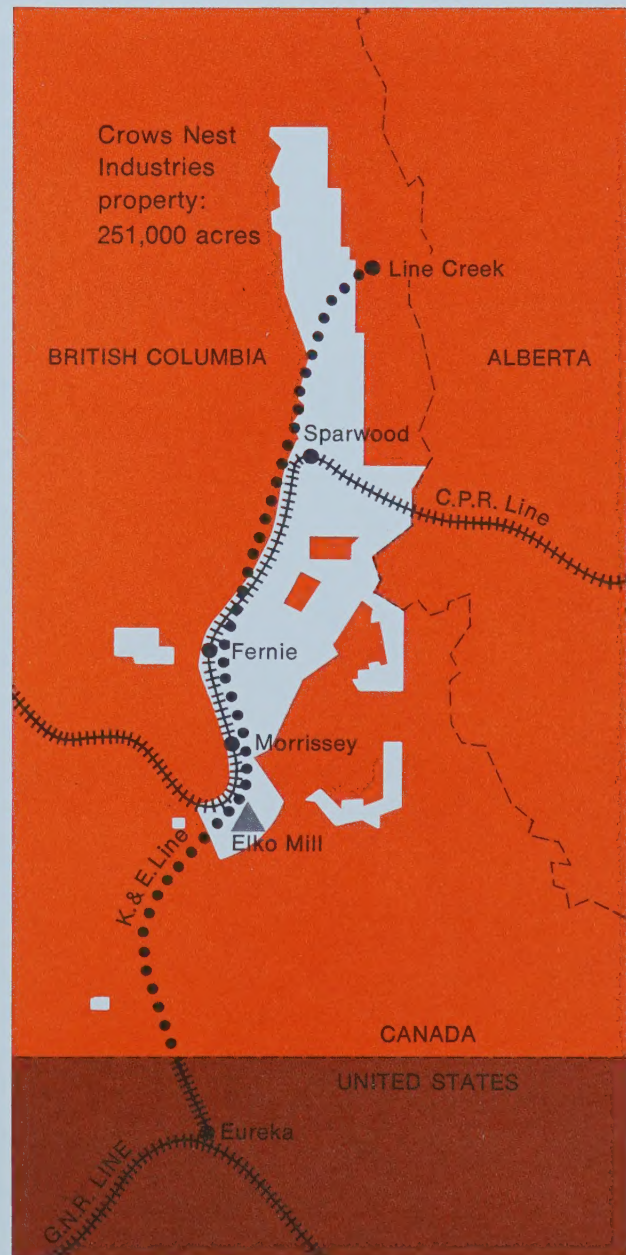
yielded income to Crows Nest of \$635,061. Market value of the Kaiser shares at the end of 1969 was approximately \$31 million compared to \$23 million at the end of 1968.

On land held under license from the Provincial Government, Crows Nest has discovered recoverable reserves in the Line Creek area of Upper Elk Coal Field sufficient to suggest an annual production of three million tons of coking coal over a 15-year period.

Coupling these with confirmed reserves held by Kaiser, Fording Coal Ltd. and Emkay-Scurry Ltd. – some of which are already contracted to Japan – the Crows Nest region offers potential production estimated at more than 20 million tons of coking coal a year. Exported F.O.B. Vancouver at an average \$14 a ton this represents a \$280 million-a-year contribution to the economy of British Columbia and Canada.

Other world coal – and Australia in particular – has a shorter rail haul from mine to port and offers stiff competition to Canadian coal in our principal market, Japan. To secure our share of this growing market, Canadian coal producers are reducing costs through new surface and underground mining techniques.

These economies must be parallel with economies in transportation and assurances that rail facilities available to the region can handle the vastly-increased volume projected not only for coal, but other products. Current pressure for higher rates, and the need for these to be



Exploration activity continued at a high level during 1969.



New mill on a mountain-rimmed plateau near Elko, B.C. was completed at a cost of \$5.3 million to consolidated operations of three older mills.

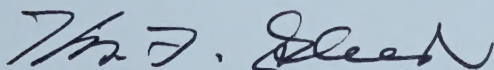


set competitively, plus [the demonstrated necessity of a second rail route to Vancouver, has prompted Crows Nest to seek the necessary authority for construction and operation of its wholly-owned subsidiary, the Kootenay & Elk Railway, to connect with the Burlington Northern, formerly Great Northern Railway, ultimately terminating at the port of Roberts Bank, just south of Vancouver. This subject is now before the Railway Committee of the Canadian Transport Commission in Ottawa.]

Chartered as a provincial industrial railway in 1966, the Kootenay & Elk Railway also will provide a north-south rail link for the expected market for thermal coal in the Kootenay-Montana area, as well as a more direct route to U.S. lumber markets in western and midwest states.

Revenue from our participation in oil and gas holdings in Alberta is up from 1968.

Improvement of Crows Nest's total operating plan is reflected in the level of capital expenditures which were approximately \$5.4 million in 1969, up sharply from \$2.4 million in 1968.



THOS. F. GLEED,
Chairman.

March 23, 1970

Helicopter photo shows exposed seams of Crows Nest Industries' new coal find in the Line Creek area. Reserves in this sparsely-treed area at the 6,000-foot level are sufficient to suggest an annual production of three million tons.

The opportunity for Canadian coal

Japan's requirement for imports of coking coal from all countries is expected to increase from 47½ million long tons in 1970 to nearly 113 million long tons by 1980. (The term long ton is a special export coal measure and is equivalent to 2,240 pounds.)

To meet this rapidly growing demand, Japanese steel mills have made a world-wide search for producers who have the reserves, the mining ability and the transportation facilities to deliver large volumes of coal on a stable, uninterrupted basis at a cost competitive with other suppliers.

Long-term contracts have been signed with Australia, the United States, Canada and others. By the fall of 1969, Japan had agreed to buy 43 million tons under fixed contracts from all sources in 1970, and was making additional spot buys to fill the gap between contract shipments and total requirements. Some further long-term agreements are already signed and the total contracted shipments will grow to a level of 52 million tons in 1972. At that time the gap between contracted shipments and requirements will be more than 13 million tons. On presently projected contracts, that gap will grow to 55 million tons by 1980. That means an opportunity for the world's coal producers to more than double the total of all present coal shipments to Japan.

As a competitor for the Japanese market, Canada now has contracts for 12½ million tons a year and has become Japan's third largest supplier, moving from a declining and insignificant position in the sixties when dependence on government subsidies limited sales to less

than a million tons a year. Since then, improved mining and transportation techniques have been introduced to lower costs and make it possible to move and sell Canadian coal without subsidies.

To gain a further volume of sales to Japan and maintain its present percentage of total requirements, Canada faces heavy competition from other suppliers, particularly Australia. As of 1972, Australia has more than 24 million tons a year sold under contracts with Japan.

Competitively, Canada enjoys some pluses over other possible suppliers because of our stable political and economic climate and the reliability of our producers and labor force. On the minus side, transportation costs are higher for the land portion of the total movement from mine to steel mill.

The average length of rail haul from Canadian coal mines to port is 700 miles. Australian coal mines are located an average of 50 to 60 miles and a maximum of 200 miles from loading ports. Ocean distances to Japan from Australia and Canada are almost identical.

The major factor in Japanese buying decisions, once quality and volume are proven, is the absolute necessity to ensure uninterrupted supply. The steel industry is critical to Japan's economy and the allocation of one-quarter to one-third of total coal requirements to a single source of supply will not be made lightly. However, Canada does have the opportunity to supply between 20 and 40 million tons of coking coal a year to Japan if it can demonstrate reliability of supply.





CROWS NEST INDUSTRIES LIMITED
(Incorporated under the laws of Canada)
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Consolidated Balance Sheet December 31, 1969 and 1968

	1969	1968
ASSETS		
CURRENT:		
Cash.....	\$ 728,962	\$ 458,787
Term deposits.....	25,000	1,312,000
Marketable securities at cost, which approximates market value....	4,205	11,605
Accounts receivable.....	1,888,748	1,900,611
Special refundable tax.....	33,733	—
Inventories valued at the lower of cost and net realizable value....	4,008,869	3,118,622
Prepaid expenses.....	123,880	57,799
Total current assets.....	<u>6,813,397</u>	<u>6,859,424</u>
INVESTMENT IN SHARES OF KAISER STEEL CORPORATION (market value approximately \$31,000,000; 1968 – \$23,000,000) (Note 1).....	<u>12,186,495</u>	<u>12,186,495</u>
FIXED AT COST (Note 2):		
Forest products –		
Timber cutting rights, roads and real estate less accumulated depletion of \$850,980 (1968 – \$732,773).....	2,281,870	1,691,221
Plant and equipment less accumulated depreciation of \$2,026,987 (1968 – \$1,967,155).....	6,372,374	3,368,893
Petroleum and natural gas –		
Acquisition and productive development costs less accumulated depletion of \$2,600,398 (1968 – \$2,531,388).....	939,319	963,240
Production equipment less accumulated depreciation of \$922,816 (1968 – \$832,342).....	507,040	418,028
Minerals –		
Acquisition, exploration and development costs.....	722,028	—
	<u>10,822,631</u>	<u>6,441,382</u>
OTHER:		
Mortgages receivable.....	32,070	43,549
Refundable deposits.....	156,439	227,805
Deferred expenses.....	786,074	575,622
Special refundable tax.....	—	38,026
	<u>974,583</u>	<u>885,002</u>
	<u>\$30,797,106</u>	<u>\$ 26,372,303</u>

See accompanying notes to consolidated financial statements.

LIABILITIES**CURRENT:**

Bank loans and overdraft (against which accounts receivable and inventories have been pledged as collateral).....	\$12,411,880	\$ 5,006,250
Accounts payable and accrued charges	2,923,429	2,502,011
Income and other taxes payable	51,026	117,187
Total current liabilities.....	<u>15,386,335</u>	<u>7,625,448</u>

LOANS PAYABLE.....	—	<u>1,400,000</u>
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DEFERRED INCOME TAXES.....	<u>332,123</u>	<u>204,358</u>
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SHAREHOLDERS' EQUITY:

Capital –

Authorized –

25,000 3% cumulative redeemable preferred shares
of \$100 par value each

1,250,000 common shares of \$8 par value each

Issued –

793,225 common shares.....	6,346,667	6,346,667
Contributed surplus (Statement 2).....	111,625	111,625
Capital surplus.....	1,300,000	1,300,000
Earned surplus (Statement 2).....	8,095,840	10,159,689
	<u>15,854,132</u>	<u>17,917,981</u>
Less 62,050 shares of parent owned by subsidiary at cost.....	<u>775,484</u>	<u>775,484</u>
	<u>15,078,648</u>	<u>17,142,497</u>

On behalf of the Board:

T. F. GLEED, *Director*.

F. D. PRATT, *Director*.

\$30,797,106

\$26,372,303



**Consolidated statements of surplus
for the years ended December 31, 1969 and 1968**

EARNED SURPLUS

	1969	1968
Balance, beginning of year	\$10,159,689	\$ 3,208,140
Net profit (loss) for the year (Statement 3)	(1,515,467)	479,449
Gain on sale of coal properties and related assets	—	7,485,125
Dividends paid	(548,382)	(548,025)
Provision for loss on retirement of sawmills	—	(465,000)
Balance, end of year	<u>\$ 8,095,840</u>	<u>\$10,159,689</u>

CONTRIBUTED SURPLUS

Balance, beginning of year	\$ 111,625	\$ 60,500
Excess of proceeds of sales of common shares over par value thereof	—	51,125
Balance, end of year	<u>\$ 111,625</u>	<u>\$ 111,625</u>

See accompanying notes to consolidated financial statements.



**Consolidated statement of profit and loss
for the years ended December 31, 1969 and 1968**

	1969	1968
Sales:		
Forest products.....	\$ 5,031,336	\$ 3,672,634
Petroleum and natural gas.....	669,259	556,358
Foreign trading.....	5,488,898	5,830,158
Coal, coke and other.....	—	1,942,741
	<u>11,189,493</u>	<u>12,001,891</u>
Cost of sales:		
Forest products.....	5,317,953	2,736,955
Petroleum and natural gas.....	194,837	147,351
Foreign trading.....	5,124,835	5,366,190
Coal, coke and other.....	—	1,615,773
	<u>10,637,625</u>	<u>9,866,269</u>
Gross profit.....	<u>551,868</u>	<u>2,135,622</u>
Expenses:		
General and administrative.....	1,007,192	1,010,254
Interest and finance.....	668,866	192,900
Depreciation.....	620,312	424,563
Depletion.....	242,426	212,887
Exploration, development and survey.....	102,769	221,425
	<u>2,641,565</u>	<u>2,062,029</u>
Profit (loss) before other income.....	<u>(2,089,697)</u>	<u>73,593</u>
Other income:		
Income from investment in Kaiser Steel Corporation.....	635,061	597,778
Miscellaneous income.....	86,792	92,599
Gain on sale of property.....	141,067	—
	<u>862,920</u>	<u>690,377</u>
Profit (loss) before income taxes.....	<u>(1,226,777)</u>	<u>763,970</u>
Income taxes (Note 4).....	288,690	284,521
Net profit (loss) for the year.....	<u>\$ (1,515,467)</u>	<u>\$ 479,449</u>

See accompanying notes to consolidated financial statements.



**Consolidated statement of source and application of funds
for the years ended December 31, 1969 and 1968**

	1969	1968
Net loss (profit) for the year.....	\$ 1,515,467	\$ (479,449)
Depreciation and depletion.....	862,738	637,450
Deferred income taxes.....	127,765	643
Cash loss (gain) from operations.....	524,964	(1,117,542)
Purchase of fixed and other assets – net.....	5,333,568	2,676,620
Reduction (increase) of long term loans payable.....	1,400,000	(1,340,983)
Dividends to shareholders.....	548,382	548,025
Proceeds from issue of common shares.....	—	(88,125)
Reduction in working capital arising from sale of coal mining assets.....	—	560,826
Total funds applied and increase in working capital deficiency.....	<u>\$ 7,806,914</u>	<u>\$ 1,238,821</u>

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
Crows Nest Industries Limited.

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1969 and the consolidated statements of profit and loss, earned surplus, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies at December 31, 1969, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 26, 1970.

CLARKSON, GORDON & CO.,
Chartered Accountants.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Notes to consolidated financial statements
December 31, 1969

**1. Investment in shares of
Kaiser Steel Corporation**

The investment in Kaiser Steel Corporation consists of 351,351 shares received in 1968 as partial consideration for the sale in that year of the Company's coal properties and related assets. In addition, the Company is also entitled to receive up to \$34 million at the rate of 50¢ per ton of coal produced and shipped after January 1, 1977 from the properties sold. Such receipts will be included in income as received.

The Kaiser shares are currently subject to certain restrictions of the United States Securities Act which limit the number of shares that may be sold publicly during any six month period. Based on quoted market prices at December 31, 1969, the value of these shares amounted to approximately \$31 million; however, because of the number of shares involved and the restrictions mentioned above, this is not necessarily indicative of the amount which might be realized on sale.

Subsequent to December 31, 1969, 152,500 shares of Kaiser Steel Corporation were pledged as security for bank loans.

2. Fixed assets

During the year, the Company completed con-

struction of its new sawmill at Elko, British Columbia. Depreciation is based on the estimated useful lives of the assets and is provided on the straight line method for the new sawmill and the reducing balance method for other plant and equipment.

Depletion is provided on timber cutting rights and oil and gas interests on a unit of production method based on estimated reserves of timber, oil and gas.

3. Statutory information

Included in profit and loss is remuneration of directors and senior officers of \$162,878 (including remuneration of directors in their capacity as directors and/or officers of \$86,133).

4. Income taxes

Income taxes provided in the accompanying financial statements include income taxes applicable to profits of subsidiary companies and withholding tax paid on investment income.

Income tax reductions which may be realized in future years as a result of carrying forward operating losses will be included in income in the years in which the losses are utilized.

Long a depressed area, Fernie and its people are sharing in the benefits of the coal export program and the new mill at Elko. Houses in foreground are part of a new development.

